

C. DUKES SCOTT
EXECUTIVE DIRECTOR

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DAN EARNETT
CHIEF OF STAFF

August 11, 2005

VIA HAND DELIVERY

Charles L.A. Terreni, Esquire
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Dr., Suite 100
Columbia, SC 29210

Re: Application of CUC, Inc. for Approval of New Schedule of Rates and
Charges for Water and Sewerage Service Provided to its Customers at
Callawassie Island and Spring Island in Beaufort County, South Carolina.
Docket No. 2005-87-W/S

Dear Mr. Terreni:

For your docket, please find enclosed the original and twenty-five (25) copies of the Direct Testimony and Exhibits of Willie J. Morgan and Tina L. Seale in the above referenced docket. Exhibit 7 of Mr. Morgan's testimony contains personal financial data of Mr. Billy Burnett, the President of CUC, Inc. In consideration to Mr. Burnett, we ask that Exhibit 7 not be placed on the Commission's website. We have included twenty-five (25) copies of Exhibit 7 in a separate envelope for this reason. Also, if you would, please date stamp the extra copy and return it to me via our courier.

Please let me know if you have any questions.

Sincerely,

Shannon Bowyer Hudson

SBH/rng
Enclosures

cc: Mr. Billy F. Burnett, President (w/enclosures)
Steven G. Mikell, Esquire (w/enclosures)
Mr. Joe Maready (w/enclosures)
Thomas Potrykus (w/enclosures)

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

DOCKET NO. 2005- 87 -W/S

IN RE: Application of CUC, Inc. for
Approval of New Schedule of
Rates and Charges for Water
And Sewerage Service Provided
to its Customers at Callawassie
Island and Spring Island in
Beaufort County, South Carolina

CERTIFICATE OF SERVICE

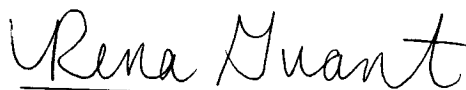
This is to certify that I, Rena Grant, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the **Testimony and Exhibits of Willie J. Morgan and Tina L. Seale** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

Mr. Billy F. Burnett, President
CUC, Inc.
2109 Timberlane Drive
Florence, SC 29506

Steven G. Mikell, Esquire
CUC, Inc.
310 West Pine Street
Florence, SC 29501

Mr. Joe Maready
16 Darby Way
West Columbia, SC 29170

Thomas Potrykus, President
Callawassie Island Property Owners Association, Inc.
101 Utility Court
Okatie, SC 29909



Rena Grant

August 11, 2005
Columbia, South Carolina

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EXECUTIVE DIRECTOR

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DAN F. ARNETT
CHIEF OF STAFF

August 11, 2005

VIA U.S. MAIL

Mr. Billy F. Burnett, President
2109 Timberlane Drive
Florence, SC 29506

Steven G. Mikell, Esquire
310 West Pine Street
Florence, SC 29501

Mr. Joe Maready
16 Darby Way
West Columbia, SC 29170

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Docket No. 2005-87-W/S

Gentlemen:

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Sincerely,

Shannon Bowyer Hudson
Shannon Bowyer Hudson

SBH/rng
Enclosures

cc: Mr. Charles L.A. Terreni (w/enclosures)
Thomas Potrykus (w/enclosures)

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CHIEF OF STAFF

August 11, 2005

VIA U.S. MAIL


Thomas Potrykus, President
Callawassie Island Property Owners Association, Inc.
101 Utility Court
Okatie, SC 29909

Re: Application of CUC, Inc. for Approval of New Schedule of Rates and
Charges for Water and Sewerage Service Provided to its Customers at
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Exhibits of Willie J. Morgan and Tina L. Seale in the above referenced docket.

Sincerely,


Shannon Bowyer Hudson

SBH/rmg
Enclosures

cc: Mr. Charles L.A. Terreni
Mr. Billy F. Burnett, President (w/enclosures)
Steven G. Mikell, Esquire (w/enclosures)
Mr. Joe Maready (w/enclosures)

**THE OFFICE OF REGULATORY STAFF
DIRECT TESTIMONY AND EXHIBITS
OF
WILLIE MORGAN**



DOCKET NO. 2005-87-WS

**Petition of the Office of Regulatory Staff to
Request Forfeiture of the Bond and to Request
Authority to Petition the Circuit Court for
Appointment of a Receiver**

TESTIMONY OF WILLIE J. MORGAN
FOR
THE OFFICE OF REGULATORY STAFF
DOCKET NO. 2005-87-WS
IN RE: CUC, INC.

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Willie J. Morgan, and my business address is 1441 Main Street, Suite 300, Columbia, South Carolina 29201. I am employed by the state of South Carolina, Office of Regulatory Staff ("ORS") as the Program Manager for the Water and Wastewater Department.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree in Engineering from the University of South Carolina in 1985 and a Master of Arts Degree in Management from Webster University in 2000. I am a licensed Professional Engineer registered in the State of South Carolina. My professional affiliations are as a member of the American Water Works Association ("AWWA"), the South Carolina Section of the American Water Works Association ("SC-AWWA") and the National Society

THE OFFICE OF REGULATORY STAFF
1441 Main Street, Suite 300, Columbia, SC 29201
Post Office Box 11263, Columbia, SC 29211

1 of Professional Engineers ("NSPE"). After graduation from the University of
2 South Carolina, I was employed by the South Carolina Department of Health and
3 Environmental Control ("DHEC") as an Environmental Engineer Associate.
4 Later, I was promoted to the position of Permitting Liaison where I assisted
5 industries and the public with environmental permitting requirements in the state
6 of South Carolina. This assistance included providing information about air
7 quality, solid and hazardous waste management, and water and wastewater
8 management requirements. I was employed by DHEC for nineteen years. On
9 October 2, 2004, I joined the ORS as the Program Manager for the Water and
10 Wastewater Department.

11 **Q. DO YOU HAVE ANY PUBLICATIONS TO YOUR CREDIT?**

12 **A.** Yes.

13 **Q. WHAT ARE THE NAMES OF SOME OF THOSE PUBLICATIONS?**

14 **A.** While at DHEC, I published several editions of a document called "A General
15 Guide to Environmental Permitting in South Carolina." This guide is a summary
16 of the various environmental requirements that affect businesses and industries
17 located or operating within the State of South Carolina. Another publication
18 authored includes a document called "Environmental Protection Fees." This
19 document is a summary of the fees charged for environmental programs. It
20 includes detailed information about the fee collected by water utilities to
21 implement the Safe Drinking Water Act Regulatory Program.

22 **Q. CAN YOU DESCRIBE THE MISSION OF THE OFFICE REGULATORY**
23 **STAFF?**

1 A. The mission of ORS is to represent the public interest in utility regulation by
2 balancing the concerns of the using and consuming public, the financial integrity
3 of public utilities, and the economic development of South Carolina.

4 **Q. CAN YOU DESCRIBE YOUR RESPONSIBILITIES AS THE PROGRAM**
5 **MANAGER FOR WATER AND WASTEWATER WITH THE OFFICE OF**
6 **REGULATORY STAFF?**

7 A. Yes. My responsibilities include performing analysis and providing testimony in
8 formal proceedings before the Public Service Commission of South Carolina
9 regarding rate base determinations, rate schedules, general terms and conditions,
10 cost of service and depreciation studies, and assuring compliance with applicable
11 rules and regulations. In addition, responsibilities include monitoring federal
12 activity to determine its impact on state regulations and policies.

13 **Q. HAVE YOU COMPLETED ADDITIONAL TRAINING AND/OR**
14 **EDUCATION SINCE YOUR GRADUATION FROM THE UNIVERSITY**
15 **OF SOUTH CAROLINA?**

16 A. I have completed courses in preparation for the professional engineering
17 examination as well as various review and continuing professional education
18 courses. The continuing professional education courses include attendance at the
19 2004 Eastern National Association Regulatory Utility Commissioners
20 ("NARUC") Utility Rate School: Basics of Ratesetting, the 2005 SC-AWWA
21 Annual Meeting, and other water and wastewater facility specific courses.

1 **Q. HOW LONG HAVE YOU PROVIDED REGULATORY OVERSIGHT**
2 **AND ENGINEERING SERVICES TO WATER AND WASTEWATER**
3 **FACILITIES?**

4 A. My experience includes over nineteen years of regulatory compliance experience
5 in providing assistance and regulatory oversight for water and wastewater
6 facilities.

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
8 **PROCEEDING?**

9 A. The purpose of my testimony is to set forth the ORS staff findings relative to
10 CUC, Inc.'s ("CUC") compliance with the Public Service Commission of South
11 Carolina ("PSC") rules and regulations, test-year and proposed revenue
12 calculations, financial assurance requirements, and site evaluations. Specifically,
13 I will focus on the facility's engineering and maintenance requirements,
14 regulatory compliance, service revenue calculations, performance bond
15 requirements, depreciation, and CUC's ability to provide adequate water and
16 sewer service.

17 **Q. ARE THE FINDINGS OF YOUR REVIEW CONTAINED IN THIS**
18 **TESTIMONY AND ACCOMPANYING EXHIBITS?**

19 A. Yes, my testimony and the attached exhibits detail my findings and
20 recommendations.

21 **Q. PLEASE EXPLAIN HOW YOU COMPILED INFORMATION FOR YOUR**
22 **TESTIMONY AND EXHIBITS.**

1 A. I used ORS audit results and information provided by CUC in its Application,
2 Data Request responses and information gathered during the ORS facility site
3 inspection. I also reviewed CUC's financial statements and performance bond
4 documents submitted to the PSC. Further, I consulted with and used information
5 from DHEC, the Environmental Protection Agency ("EPA"), and the National
6 Association of Regulatory Utility Commissioners.

7 **Q. PLEASE PROVIDE AN OVERVIEW OF THE LOCATION, SERVICE**
8 **TYPES AND CUSTOMER CLASSIFICATIONS SERVICED BY CUC.**

9 A. CUC is a public utility providing potable and irrigation water distribution service
10 and wastewater collection/treatment services. CUC is a Class B water/wastewater
11 utility. CUC's service area is located in Beaufort County, South Carolina and
12 serves customers on Callawassie Island, Spring Island, and Chechessee Bluff
13 (Exhibits WJM-1 and WJM-2). CUC's business office is located at 99 Utility
14 Court, Okatie, South Carolina on Callawassie Island. Also, the owner has an
15 office in Florence, South Carolina at 2109 Timberlane Drive. In addition, the
16 bookkeeper has an office in her home in Florence. The current water supply is
17 provided by the Beaufort Jasper Water and Sewer Authority ("BJWSA") through
18 a master meter and is metered to all customers. CUC provides wastewater
19 treatment for its customers on Chechessee Bluff, Callawassie Island, and most of
20 the customers on Spring Island. Some of the customers on Spring Island have
21 individual septic systems. The customers of CUC include both residential and
22 commercial customers. The wastewater collection process for the customers on
23 Chechessee Bluff and Callawassie Island is a collection system with multiple

1 force mains and lift stations. The collection system conveys the collected
2 wastewater to a biological wastewater treatment facility ("WWTF") and spray
3 irrigation system on Callawassie Island. The wastewater collection process for
4 the customers on Spring Island is a pressurized collection system with individual
5 grinder pump stations at each customer's connection point to the utility system.
6 The collection system conveys the collected wastewater to a sequential batch
7 reactor (SBR) type WWTF and spray irrigation system on Spring Island.
8 According to CUC's customer records for the test year ending December 31,
9 2004, water services were provided to 1047 customers and sewer services were
10 provided to 584 customers (Exhibit WJM-3).

11 **Q. PLEASE EXPLAIN EXHIBIT WJM-4 OF YOUR REPORT.**

12 A. Exhibit WJM-4, pages 1 through 4, provides a summary of the services provided
13 by CUC based on the Business Office Compliance Review conducted by ORS.
14 The Business Office Compliance Review consists of a review of CUC's office
15 records to determine compliance with PSC rules and regulations.
16 CUC utilizes a customized computer database to capture customer account billing
17 transactions. This record keeping process is maintained as part of the customer
18 billing information that details the customer name, account number, billing date,
19 type of billing adjustment and account resolution.
20 Customer billing complaints are maintained at the Callawassie Island office in an
21 adjustment tracking report. Service complaints, according to CUC, are phoned in
22 or made in person by the complainant at the Callawassie Island office. They are
23 given to a CUC employee for resolution. Hand-written records of customer

1 complaints were being kept by CUC on a complaint form in a binder. The utility
2 recently began using a computerized record keeping method for managing
3 complaint records.

4 CUC charges customers late fees. Customers are not charged a deposit for the
5 establishment of service. In addition, CUC has not disconnected a customer for
6 non-payment. ORS's audit of CUC billing transactions noted few delinquent
7 accounts in the customer database. Invoice adjustments and payment applications
8 are automated, timely, and accurate.

9 CUC was provided the Business Compliance Review and facility site inspection
10 results for review and comment. Both parties had opportunity to provide
11 feedback and suggestions for compliance with all PSC Rules and Regulations.
12 CUC agreed to implement many of the improvements recommended by ORS.
13 However, the Business Office Compliance Review revealed the following
14 deficiencies:

- 15 1. A few complaint records did not have a resolution indicated on the complaint
16 form as required pursuant to 26 S.C. Code Regs. 103-516 and 103-716. At the
17 beginning of July 2005, CUC implemented a new computerized tracking
18 mechanism for complaint resolution. ORS reviewed the new tracking
19 mechanism and this process appears to work well with tracking service and
20 billing complaints. Complaints related to customer billing are adjusted
21 appropriately in CUC's computer database.
- 22 2. CUC does not maintain the following information as required by Commission
23 regulations:

1 a. Procedures assuring that complainants are made aware that CUC is
2 under Commission jurisdiction; and

3 b. Proper customer billing format including past due date and rate
4 schedule are not referenced on the bill form.

5 These items were addressed and corrected by CUC on the day of the
6 business audit.

7 3. Map(s) of Chechessee Bluff service area should be provided to ORS, and as of
8 the date for filing this testimony, the map(s) have not been provided.

9 4. The Safe Drinking Water Fee collected from CUC customers is not being
10 managed properly. In the test year, CUC billed and collected \$3760 at a rate
11 of \$0.50 per customer for the DHEC Safe Drinking Water Fee. CUC's fee as
12 billed by DHEC and paid by CUC in the test year was \$2,799. In addition,
13 CUC paid \$480 to Beaufort Jasper Water and Sewer Authority for DHEC
14 required testing. CUC used the excess fees of \$481 to off-set operating
15 expenses. This fee can only be collected and used to pay the environmental
16 regulatory authority (DHEC) for the oversight of the drinking water system.
17 Any excess amount collected from customers cannot be used to pay other
18 operating expenses as CUC is currently doing.

19 **Q. PLEASE EXPLAIN EXHIBIT WJM-5 OF YOUR REPORT.**

20 A. Exhibit WJM-5, consisting of five pages, is a summary of the water distribution
21 and wastewater collection and treatment services inspected by ORS on July 22,
22 2005.

23 **Water Distribution**

1 CUC currently provides adequate water distribution services to its residential and
2 commercial customers. Water is distributed to customers on both Callawassie and
3 Spring Islands. The water at both locations, as observed by ORS, was free of air,
4 distinct color and had no observable odor. Potable water and irrigation
5 consumption is metered to all customers. CUC provides fire protection services
6 to residential and commercial customers. There is no construction activity being
7 proposed by CUC for its water distribution systems.

8 **Wastewater Collection and Treatment Systems**

9 CUC has WWTFs at two locations, Callawassie Island and Spring Island, that
10 operate under SC DHEC no discharge permits. Sewer service is provided to
11 customers at Chechessee Bluff, Callawassie Island, and Spring Island. Treated
12 wastewater effluent is discharged to Callawassie Island Golf Course and the Old
13 Tabby Golf Course. The WWTF on Spring Island is an SBR type system with an
14 in-line ultra-violet disinfection treatment process. The WWTF on Callawassie
15 Island is a biological treatment process in a tank system. The CUC wastewater
16 collection system includes seventeen lift stations.

17 During the ORS inspection, all the wastewater collection and treatment systems
18 were operating adequately and in accordance with DHEC rules and regulations.
19 There is neither construction activity being proposed by CUC for its wastewater
20 collection and treatment systems nor is there an immediate need for an upgrade of
21 the existing systems.

22 **Q. PLEASE EXPLAIN EXHIBIT WJM-6 OF YOUR REPORT.**

1 A. Exhibit WJM-6 provides an overview of CUC's bond structure. The purpose of a
2 utility's performance bond is to provide sufficient financial assurance to both the
3 customer and the Commission in the event that the utility fails to provide safe and
4 adequate service. The performance bond amount should be of a level to support
5 expenses of that utility for a period of time. Pursuant to 26 S.C. Code Regs. 103-
6 512.3.1 and 103-712.3.1, "the amount of bond shall be based on, but not limited
7 to, the total amount of the following categories of expenses for twelve months:
8 Operation and Maintenance Expenses, General and Administrative Expenses,
9 Taxes Other Than Income Taxes, Income Taxes, and Debt Service including
10 Interest Expenses." The bond amount is also set forth in S.C. Code Ann. Section
11 58-5-720 (Supp. 2004). The Commission's statutes and regulations state bond
12 amounts must range from an amount not less than \$100,000 and not more than
13 \$350,000.

14 CUC has current performance bonds for utility water and wastewater operations
15 in the form of a financial statement on file with the PSC in the amount of
16 \$100,000 for water and \$100,000 for sewer (Exhibit WJM-7).

17 Upon reviewing the expenses from the test year and using the criteria set forth in
18 26 S.C. Code Regs. 103-512.3.1 and 103-712.3.1, I determined that the face
19 amount of CUC's bond should be \$350,000.00 for water operations and
20 \$350,000.00 for wastewater operations. Combined operations expenses using the
21 bonding criteria totaled \$747,100.00 as adjusted. In order to protect the
22 ratepayers, in the event the utility becomes non-viable, ORS recommends
23 increasing the bond requirement for CUC to \$350,000 for both water and

1 wastewater operations according to the requirements of S.C. Code Ann. Section
2 58-5-720.

3 **Q. PLEASE EXPLAIN EXHIBIT WJM-8 OF YOUR REPORT.**

4 A. Exhibit WJM-8 is the depreciation schedule for the assets obtained or owned by
5 CUC during the test year.

6 **Q. WHAT SERVICE LIFE DO YOU ATTRIBUTE TO THESE ASSETS?**

7 A. The service life should be based on the useful life of a piece of equipment and
8 may differ from the service life assigned for computation of depreciation expense
9 for income tax preparation. ORS recommendations are based on the conclusions
10 outlined in the Florida Public Service Commission Water and Wastewater System
11 Regulatory Law as recommended by the NARUC staff. CUC has chosen to use
12 the IRS tax depreciation recommendations. ORS's approach and conclusions
13 made concerning depreciation are consistent with the Public Utility Depreciation
14 Practices manual as published by NARUC in 1996 which states:

15 "Book depreciation is a cost allocation process used to satisfy specific
16 accounting and regulatory principles and requirements, whereas tax
17 depreciation provides additional tax and financial incentives unrelated to
18 the strict cost allocation process."

19 ORS added several assets to the depreciation schedule that were discovered
20 during the ORS audit. Some of these assets were previously listed on the CUC
21 books and records as expenses. ORS recommends that CUC continue to maintain
22 property records to assist accurate recording of depreciation expense and
23 plant/equipment assets.

1 **Q. PLEASE DESCRIBE CUC'S BILLING PROCEDURE AND THE ORS**
2 **AUDIT OF CUSTOMER BILLING RECORDS.**

3 A. ORS completed a thorough review of CUC's customer water consumption records
4 and customer billing records on July 22, 2005. Currently, CUC's approved tariff
5 is structured for monthly customer billing and CUC reads water meters and bills
6 water, wastewater and irrigation customers on a monthly basis in arrears. Prior to
7 the audit, ORS was informed by CUC that the metering device used by the
8 Beaufort Jasper Water and Sewer Authority to monitor the amount of water being
9 distributed to CUC was not functioning properly during the test year. Therefore,
10 a thorough unaccounted for water analysis could not be completed for the test
11 year. However, all customers billing history examined during the audit revealed
12 proper billings and adjustments.

13 **Q. PLEASE DESCRIBE THE ORS REVENUE ANALYSIS PROVIDED IN**
14 **EXHIBIT WJM-9.**

15 A. Exhibit WJM-9 summarizes CUC's service revenues for the test year ending
16 December 31, 2004. I used a bill frequency analysis to provide a comparison of
17 CUC's base monthly charge for water and sewer service. The bill frequency
18 analysis utilizes the total number of invoices issued during the test year and the
19 customers' billing amount as invoiced. This provides a comparison between what
20 should have been billed and what was recorded as revenue in the application. In
21 addition, I reviewed CUC's records relating to customer water usage for the test
22 year and the actual amount of water billed to customers by CUC. Using
23 individual customer actual water consumption, I applied CUC's approved rates to

1 assist with the verification of the test year revenues. Exhibit WJM-9 is prepared
2 using all service revenue, including base monthly charges and water/sewer
3 consumption charges earned during the test year beginning January 1, 2004 and
4 ending December 31, 2004. ORS used consumption and revenue data provided
5 by CUC and verified during the audit. In addition, ORS used CUC's current and
6 proposed rates as reflected in the application for all calculations.

7 In its application, CUC stated that availability fee charges should not be treated as
8 operating revenue. However, during the ORS audit, it was revealed that CUC
9 billed, collected and used availability fees as service revenue. The availability
10 fees are billed by CUC and are not kept in a separate account. Further, the
11 President of CUC told me the fees were being used as operating revenues. Water
12 and/or wastewater utility lines are made available and maintained by CUC for the
13 customers to each lot. The service lines are constructed and are maintained by
14 CUC as if there actually are water and/or wastewater services provided to the
15 customer's lot. Only a meter is required to be installed if the customer paying
16 availability fees desires water service for his or her lot. CUC does not have to
17 bore underneath the roadway to locate the water main. The water line to the lot
18 has already been provided and maintained by CUC as a service to the customer
19 for continuously paying the availability fee. In these instances, CUC will only be
20 required to install a meter to provide water service.

21 In summary, ORS calculated CUC's test year service revenue, as adjusted, of
22 \$564,008. ORS calculated CUC's service revenues at proposed rates, as adjusted,
23 of \$878,072.

1 **Q. PLEASE EXPLAIN EXHIBIT WJM-10 OF YOUR REPORT.**

2 A. Exhibit WJM-10 is a summary of the current PSC approved rates for CUC and
3 CUC's proposed rates.

4 **Q. DID CUC REQUEST AN INCREASE TO RATES AND CHARGES FOR**
5 **NOTIFICATION TO DELINQUENT CUSTOMERS?**

6 A. Yes. However, CUC's proposed increase from a current "no charge" rate to
7 \$4.00 may be insufficient to meet the projected cost of notifying a delinquent
8 customer in accordance with Commission Rule R.103-535.1. However, because
9 this rate was noticed to the customers at \$4.00, we accept this rate.

10 **Q. HAS CUC REQUESTED AN INCREASE WATER AND SEWER TAP**
11 **FEES?**

12 A. No. CUC has not proposed an increase at this time. CUC installed several taps
13 during the test year and provided cost information as requested by ORS.

14 **Q. PLEASE EXPLAIN EXHIBIT WJM-11 OF YOUR REPORT.**

15 A. Exhibit WJM-11 provides a summary of the revenue increase amounts produced
16 by a selected range of operating margins. Information provided in CUC's
17 application indicates a proposed operating margin of 15.52%. ORS recommends
18 an operating margin range of 10-15% which will provide a prudent balance
19 between the consumer's need for affordable, quality services and CUC's financial
20 health. The Audit Department calculated the revenue requirement for the
21 alternate operating margins. The Water/Wastewater Department calculated the
22 proposed increase amounts that would produce the revenue requirement.

23 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

1 A. Yes it does.

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2005-87-WS

CUC, INC.

WILLIE J. MORGAN TESTIMONY

EXHIBIT INDEX

<u>EXHIBIT NO.</u>	<u>EXHIBIT TYPE</u>	<u>PREPARED BY</u>
WJM-1	Service Area Map for Spring Island	CUC
WJM-2	Service Area Map for Callawassie Island	CUC
WJM-3	Customer Count Information	ORS
WJM-4	Business Office Compliance Review	ORS
WJM-5	Water and Wastewater System Inspection Reports	ORS
WJM-6	Performance Bond Requirement	ORS
WJM-7	CUC Performance Bond Information	CUC
WJM-8	Depreciation Schedule	ORS
WJM-9	Service Revenue Analysis	ORS
WJM-10	Proposed Rate Structure Comparison	ORS
WJM-11	Alternate Operating Margin Comparison	ORS



CUSTOMER COUNT INFORMATION

January-04						
	Availability		Sewer	HWater	Water	Water & Sewer
	Water	Water & Sewer				
CUC, INC.	58	441	22	76	404	535
Inactive	3	3	0	0	5	0
Total	61	444	22	76	409	535
						1547

December 31, 2004									
Area	Availability		Sewer	HWater	Water	Water & Sewer	Total Active	Inactive	Total Count
	Water	Water & Sewer							
CCB	0	0	23	0	1	0	24	0	24
CF	0	0	1	0	0	0	1	0	1
CCC	0	6	0	0	17	18	41	0	41
CBC	0	29	0	0	28	36	93	0	93
HP	0	9	0	0	7	8	24	1	25
HW	0	0	0	0	7	38	45	0	45
IC	0	22	0	0	7	11	40	0	40
LD	0	8	0	0	1	0	9	0	9
LW	0	13	0	0	16	20	49	0	49
MP	0	30	0	0	37	42	109	0	109
OF	0	15	0	0	20	21	56	1	57
OP	0	43	0	0	30	39	112	0	112
OC	0	30	0	0	49	54	133	0	133
SC	0	4	0	0	7	8	19	0	19
SI	55	138	0	77	62	129	461	7	468
SID	0	43	0	0	34	34	111	0	111
SM	0	7	0	0	29	34	70	0	70
TP	0	3	0	0	22	22	47	0	47
WO	0	17	0	0	35	44	96	2	98
WS	0	9	0	0	1	2	12	0	12
Total	55	426	24	77	410	560	1552	11	1563

	Availability		Sewer		HWater	Irrigation	Water & Sewer	Total Active
	Water	Water & Sewer				Water		Accounts
Jan-04	58	441	22		76	404	535	1536
Jan-05	55	426	24		77	410	560	1552
Average	56.50	433.50	23.00		76.50	407.00	547.50	1544.00
Growth Factor	-0.02655	-0.01730	0.04348		0.00654	0.00737	0.02283	0.00518

**REVIEW OF WATER AND WASTEWATER SERVICES
CUC, INC.
DOCKET: 2005-87-WS**

On July 22, 2005, personnel from the Office of Regulatory Staff (“ORS”) of South Carolina performed a Business Compliance audit of the revenue, customer complaint, and customer deposit records of CUC, Inc. (“CUC”) in preparation for this rate case. CUC currently provides water supply services, wastewater collection and treatment services to commercial and residential customers in Beaufort County, South Carolina and serves customers on Callawassie Island, Spring Island, and Chechessee Bluff. As of July 1, 2005, CUC was providing water service to 1057 customers and sewer services to 590 customers.

The ORS Consumer Services Department received no consumer complaints regarding CUC during the test year. Since the filing of the rate increase application by CUC, the Public Service Commission has received one Petition to Intervene and two Letters of Protest. In addition, one formal customer complaint has been received by ORS concerning a billing issue and one customer complaint concerning a service issue.

ORS determined CUC provides adequate water provision and wastewater collection and treatment services and is operating its facilities in compliance with all DHEC rules and regulations.

The following 2 pages provide a summary of the ORS Business Compliance Audit results.



ORS BUSINESS OFFICE COMPLIANCE REVIEW: Water/Sewer Company: 2005-87-WS

Utility: CUC, Inc.

Inspector: Willie Morgan - Office of Regulatory Staff

Office: 99 Utility Court, Callawassie Island in Beaufort County

Utility Type: Water & Wastewater

Date: July 22, 2005

Company Representative: Mr. Billy Burnett / Mr. Marshall Bishop
CUC, Inc.

Number of Customer Accounts: 1574

Subdivision Name: Callawassie Island, Spring
Island, and Chechessee Bluff

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
1	All records and reports available for examination in accordance with R.103-510 and R. 103-710.	X		All records and reports are kept at CUC, Inc.'s office at 99 Utility Court on Callawassie Island in Beaufort County. Copies of some records are kept in Florence, SC.
2	Complaint records maintained in accordance with R.103-516 and R. 103-716.	X		In general, complaint records are being properly maintained. However, a few complaint records did not list complaint resolution. CUC, Inc. is now maintaining its complaints with a computer tracking system.
3	Utility's rates, its rules and regulations, and its up-to-date maps and plans available for public inspection in accordance with R.103-530 and R.103-730.	X		All rates, rules and regulations, and maps and plans are available at CUC, Inc.'s office at 99 Utility Court on Callawassie Island in Beaufort County.
4	Established procedures to assure that every customer making a complaint is made aware that the utility is under the jurisdiction of the South Carolina Public Service Commission and that the customer has the right to register the complaint in accordance with R.103-530 and R. 103-730.	X		
5	Deposits charged within the limits established by R.103-531 and R. 103-731.	N/A	N/A	No deposits are charged to customers.
6	Timely and accurate bills being rendered to customers in accordance with R.103-532 and R.103-732.	X		Customers are billed in arrears. Bills are issued on the 1 st of the month.

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
7	Bill forms in accordance with R.103-532 and R.103-732.	X		The bill form was missing reference to location of rate schedule. Customers are only charged a late fee if their total amount due is not received within 25 days of the issue date for the bill. However, this was not clear on the bill. The bill form was corrected during the business audit to conform to the requirements of R.103-732. The Safe Drinking Water Fee collected from customers is not being managed properly. This fee can only be collected and used to pay the environmental regulatory authority (DHEC) for the oversight of the drinking water system. Any excess amount collected from customers cannot be used to pay other operating expenses.
8	Adjustments of bills handled in accordance with R.103-533 and 103-733.	X		Adjustments of bills appear to be managed properly.
9	Policy for customer denial or discontinuance of service in accordance with R.103-535 and 103-735.	X		No service terminations were noted during the audit.
10	Notices sent to customers prior to termination in accordance with Rule R.103-535 and 103-735.	X		Notices have been mailed to some customers for delinquent payment and the customers immediately addressed the problem.
11	Notices filed with the Commission of any violation of PSC or DHEC rules which affect service provided to its customers in accordance with rule R.103-514-C and 103-714-C.	X		No notice of violations have been found during this audit.
12	Utility has adequate means (telephone, etc.) whereby each customer can contact the water and/or wastewater utility at all hours in case of emergency or unscheduled interruptions or service in accordance with R.103-530 and 103-730.	X		Telephone number is on bill, gate to office and WWTFs, and displayed throughout the island on the lift stations.
13	Records maintained of any condition resulting in any interruption of service affecting its entire system or major division, including a statement of time, duration, and cause of such an interruption in accordance with R.103-514 and 103-714.	X		No interruption of service affecting the entire system or major divisions were noted during the audit.

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
14	Utility advised the Commission, in accordance with Rule 103-512 of the name, title, address and telephone number of the person who should be contacted in connection with general management duties, customer relations, engineering operations, emergencies during non-office hours.	X		Information has been submitted to ORS and the Commission. The updated information was received on May 31, 2005.
15	Company verified the maps on file with the Commission include all the service area of the company.		X	Maps of Chechessee Bluffs should be provided to ORS.
16	Number of customers the company has at present time.	N/A	N/A	1574 customer accounts. This number does not include customers that pay "availability fees."
17	Company has a current performance bond on file with the Commission. Amount of bond: \$100,000 for water \$100,000 for sewer	X		CUC, Inc. uses a personal financial statement to meet the requirements of the performance bond.



ORS WATER SYSTEM INSPECTION: 2005-87-WS

Utility Name: CUC, Inc.

Number of Customers: 1063

System Type: Distribution

Date Inspected: July 22, 2005

Inspected By: Willie Morgan
Office of Regulatory StaffSubdivision Name: Callawassie Island, Spring
Island, and Chechessee BluffCompany Representative: Mr. Billy Burnett / Mr. Marshall Bishop
CUC, Inc.

Type of Plant: Distribution from Beaufort/Jasper Water & Sewer Authority

Extent of Treatment: None by CUC, Inc. Water Distribution System No. 0750041.

System Components Inspected	Specific Type	Total #	PSI	Capacity	Compliance		Comments
					Yes	No	
Well Sites		N/A					
Pump Houses		N/A					
Storage Tank(s)		N/A					
	Pressurized	N/A					
	Non-Pressurized	N/A					
	Overhead	N/A					
Chlorinator		0					Distribution Only
Meters		1063			X		Residential, Commercial, & Irrigation
Fire Hydrants					X		
Electrical Wiring					X		
Exposed Pipe					X		
Air in Lines					X		No air in water observed
Sand in Water					X		No sand observed
Clarity of Water					X		See color & turbidity information below
Leaks					X		No leaks observed
Odor					X		No odor observed
Condition of Access Road:					X		
New Construction					X		Some new homes were being constructed.

Frequency Checked by Licensed Operator: System checked by operators daily.

Location of Utility Office: 99 Utility Court, Callawassie Island in Beaufort County

Subdivision provided wastewater service by this Utility: Yes. However, a few homes are on septic tanks.

Comments: River Club on Callawassie Island - turbidity: ~1 NTU, color: <25
WWTF Lab/Office on Spring Island - turbidity: ~1 NTU, color: <19



ORS WASTEWATER SYSTEM INSPECTION: 2005-87-WS

Utility Name: CUC, Inc. Number of Customers: 459

System Type: Collection and Treatment System Date Inspected: July 22, 2005

Inspected By: Willie Morgan Subdivision Name: Callawassie Island & Cheschessee Bluff
Office of Regulatory Staff

Company Representative: Mr. Billy Burnett / Mr. Marshall Bishop
CUC, Inc.

Type of Plant: Collection and Biological Treatment System

Extent of Treatment: Biological Treatment in tanks to holding pond with Spray Irrigation using ND (ND0062235) permit to golf course

System Components Inspected	Yes	No
Chlorinator (tablets)	X	
Other Chemicals in Use		X
Aerators	X	
Plant fenced and Locked	X	
Warning Signs Visible	X	
Holes in Fence		X
Erosion of Dikes		X
Odor		X
Grass Cut	X	
Duck Weed or Algae		X
Grease Build Up		X
Debris inside of Plant		X
Color of Effluent:	Mostly Clear	
Lift Stations: Number 16	X	
Failure Warning System	X	
Electric Wiring Acceptable	X	
Overflows		X
Condition of Access Road: Good		
New Construction Some new homes are being constructed.	X	

Frequency Checked by Licensed WWTF Operator: System checked by operators daily. 7 days per week.

Location of Utility Office: 99 Utility Court, Callawassie Island in Beaufort County

Location of System: Callawassie Island and Chechessee Bluff

Subdivision provided water by this Utility: Yes

Comments: All houses are gravity flow except 3 houses with grinder pumps.

Chlorination at WWTF is done with chlorine tablets. However, no dechlorination is being done and none is required. Interim discharge is to a holding pond on the golf course prior to final discharge as irrigation on the golf course.

Some lift station signage does not have a telephone area code for people to call in case of an emergency. CUC has agreed to correct this issue. This was given as an assignment by the owner to one of the operators to replace the signs without the area code.



ORS WASTEWATER SYSTEM INSPECTION: 2005-87-WS

Utility Name: CUC, Inc. Number of Customers: 131

System Type: Collection and Treatment System Date Inspected: July 22, 2005

Inspected By: Willie Morgan Subdivision Name: Spring Island
Office of Regulatory Staff

Company Representative: Mr. Billy Burnett / Mr. Marshall Bishop
CUC, Inc.

Type of Plant: Collection and Advanced Biological Treatment (in tanks) System

Extent of Treatment: Advanced Biological Treatment in tanks to holding pond with Spray Irrigation using ND (ND0077828) permit to Old Tabby Golf course

System Components Inspected	Yes	No
Chlorinator		X
Other Chemicals in Use		X
Aerators 5	X	
Plant fenced and Locked	X	
Warning Signs Visible	X	
Holes in Fence		X
Erosion of Dikes		X
Odor		X
Grass Cut	X	
Duck Weed or Algae	X	
Grease Build Up		X
Debris inside of Plant		X
Color of Effluent:	Mostly Clear	
Lift Stations: Number 1	X	
Failure Warning System	X	
Electric Wiring Acceptable	X	
Overflows		X
Condition of Access Road: Good		
New Construction Some new homes are being constructed.	X	

Frequency Checked by Licensed WWTF Operator: System checked by operators daily. 7 days per week.

Location of Utility Office: 99 Utility Court, Callawassie Island in Beaufort County

Location of System: 262 Spring Island Drive

Subdivision provided water by this Utility: Yes

Comments: The collection system is a pressure system. All customers are equipped with a grinder pump. However, some customers are on individual septic tanks.

The WWTF consists of twin sequential batch reactors (SBRs), final filter (tertiary), twin digesters, ultra-violet (UV) light disinfection, and effluent holding pond. Treated wastewater is discharged to an effluent holding pond and then land applied to 37 acres of the 150 acres of Old Tabby Golf Course by

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spray irrigation. Standby power is provided and an alarm system is available. The bulbs for the UV light disinfection system are replaced annually (all at once).

The duck weed problem is located in the holding pond. The duck weed is removed regularly by the operators.

PERFORMANCE BOND FOR TEST YEAR ENDING DECEMBER 31, 2004

	CUC, Inc. - Combined Operations		
	Per Books	As Adjusted	CUC Proposed Increase
Bond Value Components			
O & M Expense	\$265,241.00	\$287,614.00	\$287,614.00
G & A Expense	\$367,993.00	\$364,447.00	\$364,447.00
Taxes	\$8,412.00	\$26,052.00	\$29,625.00
Income Tax	\$0.00	\$0.00	\$65,414.00
Debt Service/Interest Expense	\$0.00	\$0.00	\$0.00
Bond Value Requirement	\$641,646.00	\$678,113.00	\$747,100.00
Current Performance Bond Structure (1)	Bond Value	Expiration Date	
Personal Financial Statement	\$100,000.00	05/24/06	
Personal Financial Statement	\$100,000.00	05/24/06	
Total Financial Assurance	\$200,000.00		

(1) As reported in Personal Financial Statement dated May 24, 2005 filed with PSC.

CUC, Inc.
Asset Depreciation Service Life Schedule
For the Test Year Ended December 31, 2004

Date Acquired	Description	Amount \$	ORS Service Life years	CUC Service Life years	Location of Asset
1	Jan-86 Sewer Plant (FL#354)	111,000	29*	15	Callawassie Island & Spring Island
2	Jan-86 Sewer Pump (FL#371)	20,000	16*	15	Callawassie Island and/or Spring Island
3	Jan-87 Sewer Pump (FL#371)	8,966	16*	15	Callawassie Island and/or Spring Island
4	Jan-88 Sewer Pump (FL#371)	4,799	16*	15	Callawassie Island and/or Spring Island
5	Jul-89 Sewer Pump Station (FL#354)	4,581	23*	15	Callawassie Island and/or Spring Island
6	Jan-86 Sewer Main (FL#360)	33,000	27*	15	Callawassie Island and/or Spring Island
7	Jan-87 Sewer Main (FL#360)	21,519	27*	15	Callawassie Island and/or Spring Island
8	Jan-88 Sewer Main (FL#360)	19,973	27*	15	Callawassie Island and/or Spring Island
9	Jul-89 Sewer Main (FL#360)	7,717	27*	15	Callawassie Island and/or Spring Island
10	Jul-89 Water Mains (FL#331)	4,408	39*	15	Callawassie Island and/or Spring Island
11	Jan-86 Water Main (FL#331)	21,000	39*	15	Callawassie Island and/or Spring Island
12	Jan-87 Water Main (FL#331)	14,346	39*	15	Callawassie Island and/or Spring Island
13	Jan-88 Water Main (FL#331)	9,289	39*	15	Callawassie Island and/or Spring Island
14	Mar-00 2000 Lexus LX470 SUV (FL#391)	59,132	6	5	Callawassie Island and/or Spring Island
15	Dec-04 2002 Ford F-150 (FL#391)	14,360	5**	5	Florence, SC
16	Dec-04 2002 Ford F-150 (FL#391)	7,284	5**	5	Callawassie Island
17	Dec-04 2002 Ford F-150 (FL#391)	7,284	5**	5	Callawassie Island
18	May-93 Caterpillar 416B Backhoe (FL#395)	53,973	11*	5	Callawassie Island
19	Apr-99 Kawasaki Mule 550 (FL#391)	6,089	6	5	Callawassie Island
20	85-88 Cumulative Tap-on Expenses	74,300	16*		Callawassie Island & Spring Island
21	89-01 Cumulative Tap-on Expenses	498,148	16*		Callawassie Island & Spring Island
22	Jan-02 Tap-on Expenses (FL#389)	10,854	16*		Callawassie Island & Spring Island
23	Jan-03 Tap-on Expenses (FL#389)	5,229	16*		Callawassie Island & Spring Island
24	Jan-04 Tap-on Expenses (FL#389)	5,790	16*		Callawassie Island & Spring Island
25	Mar-04 2 HP Sewer Pump Rebuild (FL#371)	837	16*		Callawassie Island
26	Oct-04 15 HP Sewer Pump Rebuild (FL#380)	1,649	13*		Callawassie Island
27	Dec-04 Peabody Sewer Pump Rebuild (FL#371)	837	16*		Callawassie Island
Total Plant and Equipment In Service		1,026,365			

* - 10% reduction in projected service life due to slight corrosion impact

** - Vehicles were purchased used

CUC, Inc.
2005-87-WS
Service Revenue Analysis
For Test Year Ending December 31, 2004

ORS Test Year Bill Frequency Analysis: January 1, 2004 - December 31, 2004

Customer Classification	Bill Code	Customer # as of 12/31/04	Total Bills issued during test year (1)	Base Charge/Mo.	ORS Calculated Base Charge Revenues	Total Water Usage in Gallons (2)	Total Calculated Revenue	CUC Reported Revenue (3)	Variance	% Increase/ Decrease from Application
Water - Residential (Spring Island)	HW	77	924	\$13.50	\$12,474					
Water - Res./Comm.(Other Areas)	WS	560	6,720	\$13.50	\$90,720	92,782,770	\$372,283	\$371,810	\$473	0.1%
Water - Irrigation	W	410	4,920	\$13.50	\$66,420					
Sewer (Chechesse Bluffs)	S	24	288	\$13.50	\$3,888	0	\$148,189	\$147,565	\$624	0.4%
Sewer - Res./Comm.(Other Areas)	WS	560	6,720	\$13.50	\$90,720		\$2,640	\$5,062	(\$2,422)	-91.7%
Availability Fees - Water Only	AW	55	660	\$4.00	\$2,640	0	\$40,896	\$39,206	\$1,690	4.1%
Availability Fees - Water/Sewer	A	426	5,112	\$8.00	\$40,896	0	\$564,008	\$563,643	\$365	0.1%
Totals					\$307,758	92,782,770				

ORS Bill Frequency Analysis at CUC Proposed Rates

Customer Classification	Bill Code	Customer # as of 12/31/04	Total Bills issued during test year (1)	Base Charge/Mo.	ORS Calculated Base Charge Revenues	Total Water Usage in Gallons (2)	Total Calculated Revenue	CUC Reported Revenue (3)	Variance	% Increase/ Decrease from Proposed Revenue
Water - Residential (Spring Island)	HW	77	924	\$20.00	\$18,480.00					
Water - Res./Comm.(Other Areas)	WS	560	6,720	\$20.00	\$134,400.00	92,782,770	\$582,255	\$598,044	(\$15,789)	-2.7%
Water - Irrigation	W	410	4,920	\$20.00	\$98,400.00					
Sewer (Chechesse Bluffs)	S	24	288	\$20.00	\$5,760.00	0	\$252,282	\$277,489	(\$25,207)	-10.0%
Sewer - Res./Comm.(Other Areas)	WS	560	6,720	\$20.00	\$134,400.00	0	\$2,640	\$5,062	(\$2,422)	-91.7%
Availability Fees - Water Only	AW	55	660	\$4.00	\$2,640.00	0	\$40,896	\$39,206	\$1,690	4.1%
Availability Fees - Water/Sewer	A	426	5,112	\$8.00	\$40,896.00	0	\$878,072	\$919,801	(\$41,729)	-4.8%
Totals					\$434,976.00	92,782,770				

Comments:

- (1) Total number of invoices issued during the test year as computed by ORS.
- (2) Total water usage as reported by CUC on the CUC, Inc. - Billing Register for each billing period.
- (3) Revenue report by CUC in application Exhibit C
- (4) CUC's proposed revenue as provide in application Exhibit C. CUC combined several bill codes into generic billing groups.
- (5) Availability Fees are billed, collected and used as operating revenue and included in this analysis.

CUC, Inc.
2005-87-WS
Service Revenue Analysis
For Test Year Ending December 31, 2004

ORS Revenue Analysis: Comparison of ORS Calculated Test Year Revenue and Proposed Rate Revenue

Customer Classification	Bill Code	Customer # as of 12/31/04	Total Bills issued during test year (1)	ORS Calculated Base Charge Revenues	ORS Calculated Base Charge Revenues	Total Calculated Revenue: Current Rates	Total Calculated Revenue: Proposed Rates	Variance	% Increase/ Decrease from Test Year Revenue
Water - Residential (Spring Island)	HW	77	924	\$12,474	\$18,480.00				
Water - Res./Comm.(Other Areas)	WS	560	6,720	\$90,720	\$134,400.00				
Water - Irrigation	W	410	4,920	\$66,420	\$98,400.00		\$372,283	\$209,971	56.4%
Sewer (Chechesse Bluffs)	S	24	288	\$3,888	\$5,760.00				
Sewer - Res./Comm.(Other Areas)	WS	560	6,720	\$90,720	\$134,400.00		\$148,189	\$104,093	70.2%
Availability Fees - Water Only	AW	55	660	\$2,640	\$2,640.00		\$2,640	\$0	0.0%
Availability Fees - Water/Sewer	A	426	5,112	\$40,896	\$40,896.00		\$40,896	\$0	0.0%
Totals				\$307,758	\$434,976.00		\$878,072	\$314,064	55.7%

Comments:

- (1) Total number of invoices issued during the test year as computed by ORS.
(2) Availability Fees are billed, collected and used as operating revenue and included in this analysis.

Customer Classification	Bill Code	Total Calculated Revenue at Proposed Rates	CUC Reported Revenue	Difference
Water/Sewer - Residential, Commercial, and Irrigation	HW, WS, W	\$834,536	\$875,533	(\$40,997)
Availability Fees - Water Only	AW	\$2,640	\$5,062	(\$2,422)
Availability Fees - Water/Sewer	A	\$40,896	\$39,206	\$1,690
Totals		\$878,072	\$919,801	(\$41,729)

Comments:

- (1) It should be noted that CUC has changed some of its bill codes since the test year.

**PROPOSED RATE STRUCTURE COMPARISON
FOR TEST YEAR ENDING DECEMBER 31, 2004**

Proposed Residential Rate Structure Comparison (5)

Proposed Residential Rate Structure Comparison (5)										
Customer Classification	Service Type	Billing Unit of Measure	Base Charge				Consumption Charge			
			Current Base Monthly Rate (1)	CUC Proposed Base Monthly Rate	Total Amount of Increase	Percent Increase	Current Consumption Rate (2)	CUC Proposed Consumption Rate	Total Amount of Increase	Percent Increase
Residential (3)(4)	Water - 3/4" Meter	per month	\$13.50	\$20.00	\$6.50	48.15%	\$2.85	\$3.70	\$0.85	29.82%
	Water - 1" Meter	per month	N/A	\$25.00	\$25.00	N/A	N/A	\$3.70	\$3.70	N/A
	Water - 1-1/2" Meter	per month	N/A	\$30.00	\$30.00	N/A	N/A	\$3.70	\$3.70	N/A
	Water - 2" Meter	per month	N/A	\$35.00	\$35.00	N/A	N/A	\$3.70	\$3.70	N/A
	Sewer - 3/4" Water Meter	per month	\$13.50	\$20.00	\$6.50	48.15%	\$2.85	\$3.70	\$0.85	29.82%
	Sewer - 1" Water Meter	per month	N/A	\$25.00	\$25.00	N/A	N/A	\$3.70	\$3.70	N/A
	Sewer - 1-1/2" Water Meter	per month	N/A	\$30.00	\$30.00	N/A	N/A	\$3.70	\$3.70	N/A
	Sewer - 2" Water Meter	per month	N/A	\$35.00	\$35.00	N/A	N/A	\$3.70	\$3.70	N/A

Proposed Commercial Rate Structure Comparison (5)

Proposed Commercial Rate Structure Comparison (5)										
Customer Classification	Service Type	Billing Unit of Measure	Base Charge			Consumption Charge				
			Current Base Monthly Rate (1)	CUC Proposed Base Monthly Rate	Total Amount of Increase	Percent Increase	Current Consumption Rate (2)	CUC Proposed Consumption Rate	Total Amount of Increase	Percent Increase
Commercial (4)	Water - 3/4" Meter	per month	\$13.50	\$20.00	\$6.50	48.15%	\$2.85	\$3.70	\$0.85	29.82%
	Water - 1" Meter	per month	\$20.00	\$25.00	\$5.00	25.00%	\$2.85	\$3.70	\$0.85	29.82%
	Water - 1-1/2" Meter	per month	\$20.00	\$30.00	\$10.00	50.00%	\$2.85	\$3.70	\$0.85	29.82%
	Water - 2" Meter	per month	\$30.00	\$35.00	\$5.00	16.67%	\$2.85	\$3.70	\$0.85	29.82%
	Sewer - 3/4" Water Meter	per month	\$13.50	\$20.00	\$6.50	48.15%	\$2.85	\$3.70	\$0.85	29.82%
	Sewer - 1" Water Meter	per month	\$20.00	\$25.00	\$5.00	25.00%	\$2.85	\$3.70	\$0.85	29.82%
	Sewer - 1-1/2" Water Meter	per month	\$20.00	\$30.00	\$10.00	50.00%	\$2.85	\$3.70	\$0.85	29.82%
	Sewer - 2" Water Meter	per month	\$30.00	\$35.00	\$5.00	16.67%	\$2.85	\$3.70	\$0.85	29.82%

Proposed Irrigation Rate Structure Comparison

Proposed Irrigation Rate Structure Comparison										
			Base Charge			Consumption Charge				
Customer Classification	Service Type	Billing Unit of Measure	Current Base Monthly Rate (1)	CUC Proposed Base Monthly Rate	Total Amount of Increase	Percent Increase	Current Consumption Rate (2)	CUC Proposed Consumption Rate	Total Amount of Increase	Percent Increase
Irrigation	Water - 3/4" Meter	per month	\$13.50	\$20.00	\$6.50	48.15%	\$2.85	\$3.70	\$0.85	29.82%
	Water - 1" Meter	per month	N/A	\$25.00	\$25.00	N/A	N/A	\$3.70	\$3.70	N/A
	Water - 1-1/2" Meter	per month	N/A	\$30.00	\$30.00	N/A	N/A	\$3.70	\$3.70	N/A
	Water - 2" Meter	per month	N/A	\$35.00	\$35.00	N/A	N/A	\$3.70	\$3.70	N/A

CUC, INC.
DOCKET: 2005-87-WS
PROPOSED RATE STRUCTURE COMPARISON
FOR TEST YEAR ENDING DECEMBER 31, 2004

Proposed Other Rate Structure Comparison (5)

Customer Classification	Service Type	Treatment Type	Billing Unit of Measure	Current Rate	CUC Proposed Rate	Amount of Increase	Percent Increase
Residential, Commercial, & Irrigation	Water	Tap Fee - 3/4" Meter	each	\$525.00	\$525.00	\$0.00	0.00%
	Water	Tap Fee - 1" Meter	each	\$700.00	\$700.00	\$0.00	0.00%
	Water	Tap Fee - >1"	each	Cost plus service	Cost plus service	\$0.00	0.00%
Residential & Commercial	Sewer	Tap Fee - 3/4" Water Meter	each	\$625.00	\$625.00	\$0.00	0.00%
		Tap Fee - 1" Water Meter	each	\$700.00	\$700.00	\$0.00	0.00%
	Sewer	Tap Fee - 1-1/4" Water Meter	each	\$800.00	N/A	N/A	N/A
		Tap Fee - 1-1/2" Water Meter	each	\$900.00	\$900.00	\$0.00	0.00%
	Sewer	Tap Fee - 2" Water Meter	each	\$1,000.00	\$1,000.00	\$0.00	0.00%
		Delinquent Notification	each	\$0.00	\$4.00	\$4.00	N/A
Residential, Commercial, & Irrigation	Water & Sewer	New Customer Initiation Cost	each	\$0.00	\$13.50	\$13.50	N/A
	Water	Water Reconnection Charge	each	\$0.00	\$35.00	N/A	N/A
		Sewer Reconnection Charge	each	\$0.00	\$250.00	\$250.00	N/A
	Sewer		each	\$0.00	\$250.00	\$250.00	N/A

(1) Current Base Monthly Rate includes a minimum water usage allowance of 2,500 gallons.

(2) Current consumption rate is applied to monthly water/sewer usage over 2,500 gallons.

(3) Current Residential Customers with 3/4" meters are placed in the "Domestic Water" and "Domestic Sewer" category under the current tariff.

(4) Current Residential Customers with meters larger than 3/4" are charged for water/sewer service based on the rate for commercial customers.

(5) Sewer billing rate is based on water meter size.

CUC, INC.
2005-87-WS
ALTERNATE OPERATING MARGIN COMPARISON
FOR TEST YEAR ENDING DECEMBER 31, 2004

Revenue Alternates	Service Type	Revenue Requirement (1)	Availability Fees	Other Revenue	Test Year Residential and Commercial Water/Sewer Revenue	Residential and Commercial Water/Sewer Revenue Increase Amount	# of Residential and Commercial Customer Bills for Test Year	Amount of Monthly Increase per Water/Sewer Customer (2)
Operating Margin @ 5.00%	Residential and Commercial Water/Sewer	\$725,600	\$43,536	\$452	\$520,472	\$161,140	19,572	\$8
Operating Margin @ 10.00%	Residential and Commercial Water/Sewer	\$786,767	\$43,536	\$452	\$520,472	\$222,307	19,572	\$11
Operating Margin @ 12.00%	Residential and Commercial Water/Sewer	\$820,800	\$43,536	\$452	\$520,472	\$256,340	19,572	\$13
Operating Margin @ 15.04%	Residential and Commercial Water/Sewer	\$878,525	\$43,536	\$452	\$520,472	\$314,065	19,572	\$16

Comments:

(1) Revenue Requirement calculated by Audit Department.

(2) Amount of Monthly increase for water and sewer service to residential and commercial customers.

**THE OFFICE OF REGULATORY STAFF
DIRECT TESTIMONY AND EXHIBITS
OF
CHRISTINA L. SEALE**



**DOCKET NO. 2005-87-W/S
APPLICATION OF
CUC, INC.
FOR ADJUSTMENT OF
RATES AND CHARGES**

2005 JUL 11 01:53 PM
SO. CAROLINA
COMM. DIV.

TESTIMONY OF CHRISTINA L. SEALE**FOR****THE OFFICE OF REGULATORY STAFF****DOCKET NO. 2005-87-W/S****IN RE: CUC, INC.**

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Christina L. Seale. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff ("ORS") as an Auditor.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR BUSINESS EXPERIENCE.

A. I received a Bachelor of Science in Accounting with a minor in Computer Systems and Applications from Columbia College in 2000. From 2001 to 2004, I was employed by the South Carolina Office of the State Auditor. In that capacity, I performed agreed-upon procedures of various state agencies in South Carolina. I also performed audits of various state agencies for the annual Single Audit of the State's Schedule of Expenditures of Federal Funds. In January 2005, I began my employment with ORS.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING CUC, INC.?

1 A. The purpose of my testimony is to set forth my findings and recommendations
2 resulting from ORS's review of the application of CUC, Inc. ("CUC") in this docket.

3 **Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR PREFILED**
4 **TESTIMONY.**

5 A. I have attached the Report of the Audit Department ("Audit Report") related to
6 CUC's application for rate increase, Docket No. 2005-87-W/S. The contents of the
7 Audit Report were either prepared by me or were prepared under my direction and
8 supervision in compliance with recognized accounting and regulatory procedures for
9 water and wastewater utility rate cases.

10 **Q. PLEASE EXPLAIN THE CONTENTS OF THE AUDIT REPORT.**

11 A. As outlined in the index of the Audit Report, pages 1-3 contain the analysis of CUC
12 and its application. The remaining pages consist of exhibits which show various
13 aspects of CUC's operations and financial position. The majority of my testimony
14 will refer to Audit Exhibit CLS-1-Operating Experience and Operating Margin, as
15 shown on page 4 of the Audit Report.

16 **Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT CLS-1 AND**
17 **ELABORATE ON THE CALCULATIONS.**

18 A. Column (1) shows the per book balances of CUC as of December 31, 2004. I
19 verified the per book balances to the books and records of CUC. The total loss for
20 return is based on the total operating revenues less total operating expenses plus
21 customer growth. The operating margin is computed by dividing the total loss for
22 return by the total operating revenues.

Column (2) shows ORS's accounting and pro forma adjustments designed to normalize CUC's per book operations. A description of each adjustment is contained in Audit Exhibit CLS-2.

Column (3) shows ORS's result of a normalized test year for CUC by adding columns (1) and (2).

Column (4) shows ORS's adjustments based on CUC's proposed rate increase. A description of each adjustment is contained in Audit Exhibit CLS-2.

Column (5) shows ORS's result of the effect of the proposed rate increase by adding columns (3) and (4).

Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT CLS-2.

A. The following adjustment numbers correspond with the numbers listed under Adj. # in this exhibit:

Adjustments 1-2 - ORS Water/Wastewater Department proposes to adjust revenues using test year customer billings and the present rates. Details of these adjustments are shown on Exhibit WJM-9 of ORS Water/Wastewater Program Manager, Willie Morgan. CUC proposes no adjustment.

Adjustments 3-4 - ORS and CUC propose to remove water and sewer tap fee revenues of (\$39,375). ORS also proposes to include these revenues in contributions in aid of construction ("CIAC"). The CIAC are included on Audit Exhibit CLS-3-Computation of Depreciation and Amortization Expense.

Adjustments 5-11 - ORS Water/Wastewater Department and CUC propose to adjust availability fees and other revenues during the test year. Details of these adjustments

1 are shown on Exhibit WJM-9 and from other information provided by ORS witness,
2 Mr. Morgan.

3 Adjustment 12 - ORS proposes to increase purchased water expense to \$55,702
4 which reflects the actual number of gallons of water consumed by the customers of
5 103,742,034. This amount was provided by ORS witness Mr. Morgan. ORS also
6 proposes to adjust purchased water expense to reflect the current rates of \$1.64 per
7 thousand gallons charged by Beaufort Jasper Water and Sewer Authority
8 ("BJWSA"). ORS's adjustment is computed using 103,742,034 times \$0.00164 less
9 the per book amount of \$114,435. CUC proposes to increase purchased water
10 expense to \$32,007 which reflects 104,600,989 gallons of water.

11 Adjustments 13-14 - ORS and CUC propose to remove water and sewer tap-on
12 expenses totaling (\$5,790). ORS proposes to capitalize and depreciate these
13 expenses as shown on Audit Exhibit CLS-3-Computation of Depreciation and
14 Amortization Expense.

15 Adjustment 15 - ORS does not propose to remove tap-on expenses to equal the
16 amount of tap fee revenues collected of \$39,375. During the test year, CUC spent
17 \$5,790 for water and sewer tap-on expenses. The remaining \$33,585 collected in
18 revenues was not spent in the test year. ORS considers this amount capacity revenue
19 which can be used for future plant expansion. CUC proposes to remove the
20 remaining (\$33,585) collected in revenues due to the assumption these revenues are
21 associated with tap fee installations.

22 Adjustment 16 - ORS proposes to remove actual expenses of (\$3,279) related to the

1 Safe Drinking Water Fee charged by the Department of Health and Environmental
2 Control ("DHEC") as this is a pass through expense. CUC proposes to remove an
3 equal amount of expenses to revenues collected of (\$3,760).

4 Adjustment 17 - ORS and CUC propose to remove lease payments totaling (\$13,509)
5 related to three trucks. CUC leased three midsize work pickup trucks for eleven
6 months during the test year. These trucks were purchased by CUC in December
7 2004. This is a nonrecurring expense.

8 Adjustment 18 - ORS proposes to remove expenses of (\$246) in the test year that
9 were not supported by adequate documentation such as invoices and receipts. As
10 ORS was unable to verify these expenses, they have been disallowed for
11 ratemaking purposes. CUC proposes no adjustment.

12 Adjustment 19 - ORS proposes to reduce sludge hauling and disposal expenses by
13 (\$4,292) to reflect the average expenses for 2003 and 2004 at current rates charged
14 by Collins Septic Tank Service, Inc. and BJWSA, respectively. For the two years,
15 the average cost for hauling sludge was \$4,519 (112,969 pounds at \$0.04 per pound),
16 the average cost for sludge disposal was \$3,278 (6.9 dry tons at \$475 per dry ton) and
17 the average cost for sampling sludge was \$242. Per ORS witness Mr. Morgan, these
18 quantities are reasonable estimates of what a normalized sludge process of a
19 wastewater treatment facility of this size would generate. Therefore, ORS computed
20 the sludge expenses based on the above quantities and the new rates of \$0.06 for
21 hauling sludge and \$500 for sludge disposal. The new amounts totaled to \$10,470
22 which consisted of \$6,778 for hauling sludge, \$3,450 for sludge disposal and \$242

1 for sampling sludge. This total amount less per book amount of \$14,762 equals our
2 adjustment of (\$4,292). CUC proposes no adjustment.

3 Adjustment 20 - ORS proposes to remove expenses of (\$14,434) relating to two
4 luxury sport utility vehicles (each respectively an "SUV"). One luxury SUV is
5 leased by CUC and driven by CUC's President and the other is owned by CUC and
6 driven by CUC's Secretary-Treasurer. ORS proposes to remove lease payments of
7 \$9,567 for the leased SUV, and repairs and maintenance of \$3,208 and gasoline of
8 \$1,659 for the owned SUV. ORS proposes to replace the luxury SUV lease
9 payments with the cost of a less expensive vehicle lease and replace all expenses
10 relating to the owned SUV with mileage reimbursement expenses. Mileage
11 reimbursement is a more equitable way to measure CUC's usage of the vehicle
12 driven by the Secretary-Treasurer. CUC proposes no adjustment.

13 Adjustment 21 - ORS proposes to replace lease payments of \$9,567 for the luxury
14 SUV driven by CUC's President, which is considered extravagant, with the lease
15 payments of \$6,526 for a midsize work pickup truck. The replacement vehicle was
16 recommended by ORS witness, Mr. Morgan and the lease payments were taken from
17 CUC's actual lease payments in the test year for a similar pickup truck currently in
18 use. ORS proposes a less expensive lease payment for ratemaking purposes. CUC
19 proposes no adjustment.

20 Adjustment 22 - ORS proposes to replace actual expenses of \$4,867 (removed in
21 Adjustment 20) for the luxury SUV driven by CUC's Secretary-Treasurer with the
22 expenses of \$5,018 relating to mileage reimbursement for the reasons stated in

1 Adjustment 20. CUC proposes no adjustment.

2 Adjustment 23 - ORS proposes to reclassify expenses of (\$3,323) which should be
3 capitalized to plant in service. ORS capitalized three rebuilt sewer pumps as
4 recommended by ORS witness, Mr. Morgan. These assets are shown on Audit
5 Exhibit CLS-3 under capitalized/removed by ORS. CUC proposes no adjustment.

6 Adjustment 24 - ORS proposes to reclassify payroll tax expense and unemployment
7 insurance of (\$18,373) from general and administrative expenses. ORS reclassifies
8 these expenses to taxes other than income in accordance with the National
9 Association of Regulatory Utility Commissioners ("NARUC") chart of accounts.
10 CUC proposes no adjustment.

11 Adjustment 25 - ORS and CUC propose to annualize salaries, wages and benefits for
12 the test year. Per CUC's records, the four field employees received a raise effective
13 March 31, 2004. ORS used the March 31, 2004 effective date in annualizing
14 salaries, wages and benefits for the test year for an adjustment of \$758. Per CUC's
15 application, CUC used an effective date of July 2004 when calculating its adjustment.
16 which amounted to \$1,781.

17 Adjustment 26 - ORS and CUC propose to annualize insurance expenses for the test
18 year. ORS used rates as of June 2005 to annualize expenses for an adjustment of
19 \$15,946. Per review of the recent insurance policies in 2005, the major changes were
20 due to health insurance decreasing considerably. This information was not available
21 to CUC at the time their application was filed. CUC used rates prior to June 2005 to
22 annualize expenses for an adjustment of \$22,661.

1 Adjustment 27 - ORS adjusts postage expenses for customer growth in Adjustment
2 43. CUC proposes to annualize postage expense for the test year using the increase
3 in the number of customers for the test year. CUC's adjustment amounts to \$1,209.

4 Adjustment 28 - ORS proposes to remove expenses of (\$5,377) that are not allowable
5 for ratemaking purposes. These expenses are for personal items of the owner,
6 services rendered outside the test year, employee gifts, nonrecurring items, and those
7 expenses not supported by adequate documentation. CUC proposes no adjustment.

8 Adjustment 29 - ORS and CUC propose to amortize rate case expenses of \$17,500
9 and \$14,500, respectively, over a five year period. ORS adjusted for rate case
10 expenses supported with actual invoices for an adjustment of \$3,500. CUC's
11 adjustment of \$2,900 was based on estimated expenses.

12 Adjustment 30 - ORS proposes to reduce depreciation and amortization expense by
13 (\$13,505) calculated by annualizing depreciation expense for plant in service using
14 rates recommended by ORS witness, Mr. Morgan and removing the amortization of
15 cumulative tap fees from depreciation. This adjustment includes depreciation
16 expense associated with the assets capitalized by ORS in Adjustment 23 and the
17 removal of depreciation expense associated with the luxury SUV driven by CUC's
18 Secretary-Treasurer. The depreciation expense for this luxury SUV is reflected in the
19 mileage reimbursement expenses. Since the net depreciation expense was a negative
20 amount of (\$4,315), ORS proposes to adjust per book depreciation by (\$13,505) to
21 reflect no depreciation expense. The computation of depreciation and amortization
22 expense is shown on Audit Exhibit CLS-3. CUC's adjustment increases depreciation

and amortization expense by \$7,771.

Adjustment 31 - ORS proposes to reclassify payroll tax expense and unemployment insurance of \$18,373 from general and administrative expenses. ORS reclassifies these expenses to taxes other than income in accordance with the NARUC chart of accounts. CUC proposes no adjustment.

Adjustment 32 - ORS proposes to increase gross receipts taxes for the as adjusted revenue of \$520,924 (total revenues of \$564,460 less availability fee revenue of \$43,536). ORS then applied the current gross receipts factor of \$0.0083772 for a total of \$4,364 less per book amount of \$4,031. This resulted in the total adjustment of \$333. CUC's adjustment decreases gross receipts taxes by (\$338).

Adjustment 33 - ORS proposes to remove one payment of (\$303) for unemployment insurance from general and administrative expenses that was booked twice during the test year. CUC proposes no adjustment.

Adjustment 34 - ORS proposes to annualize payroll tax expense for the test year for an adjustment of \$54. CUC's adjustment for payroll tax expense is included in Adjustment 25.

Adjustment 35 - ORS proposes to remove property tax expenses relating to the two luxury SUVs of (\$363) and (\$781) for a total adjustment of (\$1,144). CUC proposes no adjustment.

Adjustment 36 - ORS proposes to replace actual property taxes of \$363 (removed in Adjustment 35) for the luxury SUV driven by CUC's President with property taxes of \$331 for a midsize work pickup truck. Mileage reimbursement expenses are

1 used in lieu of property tax expenses for the luxury SUV driven by CUC's Secretary-
2 Treasurer. CUC proposes no adjustment.

3 Adjustment 37 - ORS and CUC propose to annualize interest expense for the test
4 year. ORS proposes to reclassify interest expense of \$1,444 to a separate line to be
5 used to compute the operating margin. CUC proposes to include interest expense
6 under total operating expenses of \$1,407.

7 Adjustment 38 - ORS and CUC propose to adjust water service revenue for the
8 proposed rate increase. ORS's proposed water service revenue adjustment is
9 \$209,972. This amount was provided by the ORS witness, Mr. Morgan. CUC
10 proposes an adjustment to water service revenue of \$226,234.

11 Adjustment 39 - ORS and CUC propose to adjust sewer revenues for the proposed
12 rate increase. ORS's proposed sewer revenue adjustment is \$104,093. This amount
13 was provided by ORS witness, Mr. Morgan. CUC proposes an adjustment to sewer
14 revenue of \$129,924.

15 Adjustment 40 - ORS and CUC propose to reflect the gross receipts taxes associated
16 with the proposed rate increase. ORS's adjustment is computed using ORS's
17 proposed revenue increase of \$314,065 multiplied by the gross receipts factor of
18 \$0.0083772 resulting in an assessment of \$2,631. CUC's adjustment is computed
19 using CUC's proposed revenue increase of \$356,158 resulting in an assessment of
20 \$2,532.

21 Adjustment 41 - ORS proposes to reflect the state license fee associated with the
22 proposed rate increase. ORS's adjustment is computed using the proposed revenue

1 increase of \$314,065 multiplied by the state license fee factor of \$0.003 resulting in
2 the amount of \$942. CUC proposes no adjustment.

3 Adjustment 42 - ORS and CUC propose to adjust income taxes associated with the
4 proposed rate increase. ORS's adjustment is computed using ORS's proposed
5 revenue increase of \$314,065 resulting in an amount of \$65,412. See Audit Exhibit
6 CLS-4 for the computation of income taxes. CUC's adjustment is computed using
7 CUC's proposed revenue increase of \$356,158 resulting in an amount of \$69,773.

8 Adjustment 43 - ORS proposes to adjust customer growth by \$2,120 for the proposed
9 rate increase. The number of customers used to calculate customer growth was
10 provided by ORS witness, Mr. Morgan. See Audit Exhibit CLS-5 for the
11 computation of customer growth. CUC does not propose a separate customer growth
12 adjustment.

13 **Q. PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.**

14 A. Audit Exhibit CLS-3 shows the computation of the depreciation and amortization
15 expense adjustment. Audit Exhibit CLS-4 shows the computation of the income tax
16 adjustment. Audit Exhibit CLS-5 shows the computation of the customer growth
17 adjustment. Audit Exhibit CLS-6 shows the income statement for the test year ended
18 December 31, 2004. Audit Exhibit CLS-7 shows the balance sheet as of December
19 31, 2004.

20 **Q. DOES THE COMPANY MAINTAIN ITS BOOKS AND RECORDS IN**
21 **ACCORDANCE WITH PUBLIC SERVICE COMMISSION RULES AND**
22 **REGULATIONS?**

1 A. No. CUC does not utilize the NARUC chart of accounts. CUC also failed to
2 properly allocate expenses between water and sewer operations during the test year.

3 **Q. DOES ORS PROPOSE TO INCLUDE AVAILABILITY FEES IN**
4 **OPERATING REVENUES?**

5 A. Yes. ORS considers CUC's availability fees a part of its operating revenues. Per
6 CUC's response to ORS's First Continuing Data Request, CUC collects these fees
7 and they become part of the overall revenue used to offset the costs of operating the
8 water and sewer facilities. Therefore, the utility customer should receive the benefit
9 of the fees. Based on the treatment of availability fees by CUC, the exclusion of
10 these fees would understate operating revenue and operating income. The NARUC
11 chart of accounts, Guaranteed Revenues Account # 469 for Water Operations and
12 Account # 530 for Sewer Operations, states that these accounts should be credited
13 with revenue received from developers or other persons for a period of time prior to
14 water service being established. CUC properly accounted for the availability fees as
15 revenues on its books, but did not book the revenue in the proper accounts.

16 **Q. DOES ORS HAVE ANY RECOMMENDATIONS FOR THE COMPANY?**

17 A. Yes. ORS recommends that CUC maintain its books and records for water and
18 sewer operations in accordance with the NARUC Uniform System of Accounts for
19 Class B Water and Wastewater Utilities and that CUC separate the water and sewer
20 expenses into the proper water and sewer accounts. In CUC's last rate case, the
21 Commission ordered CUC to maintain its books and records in accordance with the
22 NARUC Uniform System of Accounts. See Commission Order No. 92-114

1 (February 27, 1992), Docket No. 91-041-W/S - Application of CUC, Inc. for an
2 Increase in Water and Sewer Rates and Charges for customers on Callawassie Island,
3 Beaufort County, South Carolina. Furthermore, 26 S.C. Code Regs. 103-517 and
4 103-719 require water and wastewater utilities to maintain their books and records in
5 accordance with the NARUC System of Accounts.

6 **Q. WHAT IS THE RESULTING OPERATING MARGIN COMPUTED BY ORS**
7 **IN THIS CASE?**

8 A. Based on the rates proposed by CUC, ORS computed an Operating Margin of
9 15.04%, as shown on Audit Exhibit CLS-1.

10 **Q. WHAT DOES ORS RECOMMEND FOR AN OPERATING MARGIN FOR**
11 **CUC?**

12 A. ORS witness, Mr. Morgan, states in his testimony that ORS recommends a 10-15%
13 operating margin for CUC. Mr. Morgan will testify to the reasons for recommending
14 a 10-15% operating margin.

15 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

16 A. Yes.

REPORT OF THE AUDIT DEPARTMENT

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2005-87-W/S

CUC, INC.

**REPORT OF THE AUDIT DEPARTMENT
THE OFFICE OF REGULATORY STAFF
DOCKET NO. 2005-87-W/S
CUC, INC.**

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**REPORT OF THE AUDIT DEPARTMENT
THE OFFICE OF REGULATORY STAFF
DOCKET NO. 2005-87-W/S
CUC, INC.**

SYNOPSIS

Amount Requested:

Per CUC, Inc.-----	\$356,158
Per Office of Regulatory Staff -----	\$314,065*
Percentage Increase Per Office of Regulatory Staff---	60.34%

Operating Margin:

Per Books -----	-6.10%
As Adjusted-----	- 20.39%
After Proposed Increase-----	15.04%

* These figures were computed by the Office of Regulatory Staff Water/Wastewater Department.

**REPORT OF THE AUDIT DEPARTMENT
THE OFFICE OF REGULATORY STAFF
DOCKET NO. 2005-87-W/S
CUC, INC.**

ANALYSIS

The South Carolina Office of Regulatory Staff ("ORS") Audit Department has made a review of the application of CUC, Inc. ("CUC") along with certain of CUC's accounting records, relative to its application for authority to increase certain rates and charges as shown in Docket No. 2005-87-W/S.

CUC is a water and wastewater utility operating in the State of South Carolina. It furnishes both water and sewer service to residential and commercial customers on Callawassie Island and Spring Island in Beaufort County. CUC's home office is located in Florence, South Carolina at 2109 Timberlane Drive.

The ORS Audit Department respectfully submits the following results of its review:

1. CUC filed an application on April 4, 2005 for approval of rates and charges for water and sewer services provided to its residential and commercial customers.
2. This matter is set for public hearing on Thursday, September 8, 2005, at 10:30 a.m.
3. CUC's application uses a test year ending December 31, 2004.
4. The following is a summary of the CUC's most recent rates and charges:

<u>Date of Order</u>	<u>Effective Date</u>	<u>Docket Number</u>	<u>Proposed Increase Requested</u>	<u>Revenue Granted</u>	<u>Operating Margin Granted</u>
02/27/92	02/27/92	91-041-W/S	\$56,859	\$38,616	(51.91 %)
07/15/85	07/15/85	85-424-W/S	Order Established Company & Rates		

5. In this application, CUC requested additional revenue of \$356,158. ORS Water/Wastewater Department calculated requested additional revenue of \$314,065 after adjustments.

6. The following exhibits are related to CUC's application for a proposed increase:

AUDIT EXHIBIT CLS-1: OPERATING EXPERIENCE AND OPERATING MARGIN

This exhibit shows CUC's water and sewer operations for the year ended December 31, 2004, with respect to operating experience and operating margin. The exhibit's format is designed to reflect per book information and applicable accounting and pro forma adjustments necessary to correct or normalize the results of CUC's test year operations.

ORS verified the per book balances to the books and records of CUC. The book figures reflect that operating revenues for CUC totaled \$617,510. Total operating expenses amounted to \$655,151 resulting in a net operating loss and total loss for return of (\$37,641). Using total loss for return of (\$37,641) and operating revenues of \$617,510, ORS computed a per book operating margin of (6.10%). The net effect of the accounting and pro forma adjustments increased total loss for return to (\$113,657), which produces an as adjusted operating margin of (20.39%).

CUC has requested an increase in rates which would produce additional gross revenues of \$314,065 as computed by ORS Water/Wastewater Department. ORS adjusted gross receipts taxes, income taxes and the state license fee based on the proposed increase.

After the proposed increase, total operating revenues amounted to \$878,525 and total operating expenses amounted to \$747,102, producing net operating income of \$131,423. Furthermore, ORS added customer growth of \$2,120 to the net operating income of \$131,423 for the total income for return of \$133,543. Using the total income for return of \$133,543 less interest expense of \$1,444 and the operating revenues of \$878,525, ORS computed an operating margin of 15.04% after the proposed increase.

**AUDIT EXHIBIT CLS-2: EXPLANATION OF ACCOUNTING AND PRO FORMA
ADJUSTMENTS**

This exhibit shows the accounting and pro forma adjustments made to correct or normalize CUC's operations and to reflect the proposed increase. For comparative purposes, CUC's and ORS's adjustments are both presented in this exhibit.

AUDIT EXHIBIT CLS-3: COMPUTATION OF DEPRECIATION AND AMORTIZATION EXPENSE

This exhibit shows computations to adjust depreciation and amortization expense which includes the amortization of contributions in aid of construction (CIAC). ORS annualized depreciation expense using rates supplied by the ORS Water/Wastewater Department. The annualized depreciation expense was reduced by the amortization of CIAC.

AUDIT EXHIBIT CLS-4: COMPUTATION OF INCOME TAXES

This exhibit shows the computation of state and federal income taxes based on taxable income after accounting and pro forma adjustments and after the effect of the requested increase. ORS used a state tax rate of 5% and federal tax rates of 15%, 25%, 34%, and 39%. CUC used a state tax rate of 5% and a composite federal tax rate of 34%.

AUDIT EXHIBIT CLS-5: COMPUTATION OF CUSTOMER GROWTH

This exhibit shows the computation of CUC's customer growth factor during the test year. A growth factor of 1.61% was computed for the test year operations.

AUDIT EXHIBIT CLS-6: INCOME STATEMENT

This exhibit presents the CUC's Income Statement for the test year. ORS verified all balances contained in this statement to the books and records of CUC.

AUDIT EXHIBIT CLS-7: BALANCE SHEET

This exhibit presents CUC's Balance Sheet as of the end of the test year. ORS verified all balances contained in this statement to the books and records of CUC.

CUC, Inc.
Operating Experience and Operating Margin
For the Test Year Ended December 31, 2004

	(1) Per Company Books	(2) Accounting & Pro Forma Adjustments	(3) As Adjusted	(4) Effect of Proposed Increase	(5) After Proposed Increase
<u>Operating Revenues</u>					
Water Service	\$ 371,810	\$ 473 (A)	\$ 372,283	\$ 209,972 (K)	\$ 582,255
Sewer Service	147,565	624 (B)	148,189	104,093 (L)	252,282
Tap Fees	39,375	(39,375) (C)	0	0	0
Availability Fees	44,268	(732) (D)	43,536	0	43,536
Other Revenues	14,492	(14,040) (E)	452	0	452
<u>Total Operating Revenues</u>	<u>617,510</u>	<u>(53,050)</u>	<u>564,460</u>	<u>314,065</u>	<u>878,525</u>
<u>Operating Expenses</u>					
Operating & Maintenance Expenses	265,241	22,373 (F)	287,614	0	287,614
General & Administrative Expenses	367,993	(3,546) (G)	364,447	0	364,447
Depreciation & Amortization Expense (Note A)	13,505	(13,505) (H)	0	0	0
Taxes Other Than Income	8,412	17,644 (I)	26,056	3,573 (M)	29,629
Income Taxes (Note B)	0	0	0	65,412 (N)	65,412
<u>Total Operating Expenses</u>	<u>655,151</u>	<u>22,966</u>	<u>678,117</u>	<u>68,985</u>	<u>747,102</u>
<u>Net Operating Income (Loss)</u>	<u>(37,641)</u>	<u>(76,016)</u>	<u>(113,657)</u>	<u>245,080</u>	<u>131,423</u>
Customer Growth (Note C)	0	0	0	2,120 (O)	2,120
<u>Total Income (Loss) for Return</u>	<u>\$ (37,641)</u>	<u>\$ (76,016)</u>	<u>\$ (113,657)</u>	<u>\$ 247,200</u>	<u>\$ 133,543</u>
<u>Interest Expense for Operating Margin</u>	<u>0</u>	<u>1,444 (J)</u>	<u>1,444</u>		<u>1,444</u>
<u>Operating Margin</u>	<u>-6.10%</u>		<u>-20.39%</u>		<u>15.04%</u>

Note A = Computation of depreciation and amortization expense adjustment is shown on Audit Exhibit CLS-3.

Note B = Computation of income taxes adjustment is shown on Audit Exhibit CLS-4.

Note C = Computation of customer growth adjustment is shown on Audit Exhibit CLS-5.

CUC, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2004

Revenues and Expenses	Adj.#	Description	\$ CUC	\$ ORS
(A) Water Service	1	ORS proposes to adjust water revenues to reflect test year customer billings.	0	473
(B) Sewer Service	2	ORS proposes to adjust sewer revenues to reflect test year customer billings.	0	624
(C) Tap Fees	3	ORS and CUC propose to remove water tap fee revenues. ORS also proposes to include these revenues in CIAC.	(23,450)	(23,450)
	4	ORS and CUC propose to remove sewer tap fee revenues. ORS also proposes to include these revenues in CIAC.	(15,925)	(15,925)
			<u>(39,375)</u>	<u>(39,375)</u>
(D) Availability Fees	5	ORS proposes to adjust water availability fee revenues to reflect test year availability billings. CUC proposes to remove water availability fee revenues.	(23,484)	(2,422)
	6	ORS proposes to adjust sewer availability fee revenues to reflect test year availability billings. CUC proposes to remove sewer availability fee revenues.	(20,784)	1,690
			<u>(44,268)</u>	<u>(732)</u>
(E) Other Revenues	7	ORS and CUC propose to remove revenues collected from the customers for the Safe Drinking Water Fee passed through to the Department of Health and Environmental Control ("DHEC").	(3,760)	(3,760)
	8	ORS and CUC propose to remove grinder station revenues.	(10,210)	(10,210)
	9	ORS and CUC propose to remove interest income.	(70)	(70)
	10	CUC proposes to remove late charges that relate to availability fees.	(2,144)	0
	11	CUC proposes to put billing adjustments back in revenues that relate to availability fees.	2,357	0
			<u>(13,827)</u>	<u>(14,040)</u>
(F) Operating & Maintenance Expenses	12	ORS and CUC propose to adjust purchased water expense to to reflect the actual water consumed by the customer. ORS also proposes to adjust purchased water expense to reflect the current rates.	32,007	55,702
	13	ORS and CUC propose to remove water tap-on expenses. ORS proposes to capitalize and depreciate these expenses.	(4,790)	(4,790)
	14	ORS and CUC propose to remove sewer tap-on expenses. ORS proposes to capitalize and depreciate these expenses.	(1,000)	(1,000)
	15	CUC proposes to remove the remainder of the revenues relating to tap fees from repairs and maintenance expenses.	(33,585)	0

CUC, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2004

Revenues and Expenses	Adj.#	Description	\$ CUC	\$ ORS
(F) Operating & Maintenance Expenses (continued)	16	ORS and CUC propose to remove DHEC recoupment fee expenses as this is a pass through expense.	(3,760)	(3,279)
	17	ORS and CUC propose to remove lease payments relating to three midsize work pickup trucks purchased in December 2004.	(13,509)	(13,509)
	18	ORS proposes to remove expenses in the test year that were not supported by adequate documentation such as invoices and receipts.	0	(246)
	19	ORS proposes to adjust sludge hauling and disposal expenses to reflect the average expenses over a two-year period at current rates.	0	(4,292)
	20	ORS proposes to remove expenses for two luxury sport utility vehicles ("SUV") relating to lease payments, repairs, maintenance and gas.	0	(14,434)
	21	ORS proposes to replace lease payments for a luxury SUV with the lease payments for a midsize work pickup truck.	0	6,526
	22	ORS proposes to add expenses relating to mileage reimbursement instead of actual expenses for the owned luxury SUV.	0	5,018
	23	ORS proposes to reclassify expenses which should be capitalized to plant in service.	0	(3,323)
			<u>(24,637)</u>	<u>22,373</u>
(G) General & Administrative Expenses	24	ORS proposes to reclassify payroll tax expense and unemployment insurance to taxes other than income.	0	(18,373)
	25	ORS and CUC propose to annualize salaries, wages and benefits for the test year.	1,781	758
	26	ORS and CUC propose to annualize insurance expenses for the test year.	22,661	15,946
	27	CUC proposes to annualize postage expense for the test year.	1,209	0
	28	ORS proposes to remove expenses that are not allowable for ratemaking purposes.	0	(5,377)
	29	ORS and CUC propose to amortize rate case expenses of \$17,500 and \$14,500, respectively, over a five year period.	2,900	3,500
			<u>28,551</u>	<u>(3,546)</u>
(H) Depreciation & Amortization Expense	30	ORS and CUC propose to annualize depreciation on all fixed assets as of December 31, 2004. ORS proposes to reduce depreciation expense by the amortization of cumulative tap fees.	<u>7,771</u>	<u>(13,505)</u>

CUC, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2004

Revenues and Expenses	Adj.#	Description	\$ CUC	\$ ORS
(I) Taxes Other Than Income	31	ORS proposes to reclassify payroll tax expense and unemployment insurance from general & administrative expenses.	0	18,373
	32	ORS and CUC propose to adjust the gross receipts taxes associated with the as adjusted revenues.	(338)	333
	33	ORS proposes to remove unemployment insurance expense booked twice during the test year.	0	(303)
	34	ORS proposes to annualize payroll tax expense for the test year. CUC's adjustment for payroll tax expense is included in Adjustment 25.	0	54
	35	ORS proposes to remove property tax expenses relating to the two luxury SUVs.	0	(1,144)
	36	ORS proposes to add property taxes for a midsize work pickup truck to replace the property taxes for the leased luxury SUV.	0	331
			<u>(338)</u>	<u>17,644</u>
(J) Interest Expense for Operating Margin	37	ORS and CUC propose to annualize interest expense for the test year. ORS proposes to reclassify interest expense to a separate line to be used to compute the operating margin. CUC proposes to include interest expense under total operating expenses.	1,407	1,444
			<u>1,407</u>	<u>1,444</u>
(K) Water Service - Effect of Proposed Increase	38	ORS and CUC propose to adjust water revenues for the proposed rate increase.	<u>226,234</u>	<u>209,972</u>
(L) Sewer Service - Effect of Proposed Increase	39	ORS and CUC propose to adjust sewer revenues for the proposed rate increase.	<u>129,924</u>	<u>104,093</u>
(M) Taxes Other Than Income - Effect of Proposed Increase	40	ORS and CUC propose to reflect the gross receipts taxes associated with the proposed rate increase.	2,532	2,631
	41	ORS proposes to reflect the state license fee associated with the proposed rate increase.	0	942
			<u>2,532</u>	<u>3,573</u>
(N) Income Taxes - Effect of Proposed Increase	42	ORS and CUC propose to adjust income taxes associated with the proposed rate increase.	<u>69,773</u>	<u>65,412</u>
(O) Customer Growth	43	ORS proposes to adjust customer growth for the proposed rate increase.	<u>0</u>	<u>2,120</u>

CUC, Inc.
Computation of Depreciation and Amortization Expense
For the Test Year Ended December 31, 2004

Date Acquired	Description	Amount \$	Allocation of Equipment %	Allocated Amount \$	Service Life years	Depr. Rate %	Depr. Expense \$	Accum. Depreciation \$
Jan-86	Sewer Plant	111,000	100%	111,000	29	3.45%	3,830	72,770
Jan-86	Sewer Pump	20,000	100%	20,000	16	FD	0	20,000
Jan-87	Sewer Pump	8,966	100%	8,966	16	FD	0	8,966
Jan-88	Sewer Pump	4,799	100%	4,799	16	FD	0	4,799
Jul-89	Sewer Pump Station	4,581	100%	4,581	23	4.35%	199	3,184
Jan-86	Sewer Main	33,000	100%	33,000	27	3.70%	1,221	23,199
Jan-87	Sewer Main	21,519	100%	21,519	27	3.70%	796	14,328
Jan-88	Sewer Main	19,973	100%	19,973	27	3.70%	739	12,563
Jul-89	Sewer Main	7,717	100%	7,717	27	3.70%	286	4,576
Jul-89	Water Main	4,408	100%	4,408	39	2.56%	113	1,808
Jan-86	Water Main	21,000	100%	21,000	39	2.56%	538	10,222
Jan-87	Water Main	14,346	100%	14,346	39	2.56%	367	6,606
Jan-88	Water Main	9,289	100%	9,289	39	2.56%	238	4,046
Mar-00	2000 Lexus LX470 SUV	59,132	75%	44,349	6	16.67%	7,393	36,965
Dec-04	2002 Ford F-150	14,360	100%	14,360	5	20.00%	2,872	2,872
Dec-04	2002 Ford F-150	7,284	100%	7,284	5	20.00%	1,457	1,457
Dec-04	2002 Ford F-150	7,284	100%	7,284	5	20.00%	1,457	1,457
May-93	Caterpillar 416B Backhoe	53,973	100%	53,973	11	FD	0	53,973
Apr-99	Kawasaki Mule 550	6,089	100%	6,089	6	FD	0	6,089
Total Plant in Service on CUC's Books		428,720		413,937			21,506	289,880

Capitalized/Removed by ORS

Mar-00	2000 Lexus LX470 SUV	(59,132)	75%	(44,349)	6	16.67%	(7,393)	(36,965)
85-88	Cumulative Tap-on Expenses (Note A)	74,300	100%	74,300	16	FD	0	74,300
89-01	Cumulative Tap-on Expenses (Note A)	498,148	100%	498,148	16	6.25%	31,134	N/A
Jan-02	Tap-on Expenses	10,854	100%	10,854	16	6.25%	678	2,034
Jan-03	Tap-on Expenses	5,229	100%	5,229	16	6.25%	327	654
Jan-04	Tap-on Expenses	5,790	100%	5,790	16	6.25%	362	362
Mar-04	2 HP Sewer Pump Rebuild	837	100%	837	16	6.25%	52	52
Oct-04	15 HP Sewer Pump Rebuild	1,649	100%	1,649	13	7.69%	127	127
Dec-04	Peabody Sewer Pump Rebuild	837	100%	837	16	6.25%	52	52
Total Plant and Equipment In Service		967,232		967,232			46,845	330,496

Amortization Associated with Tap Fees (CIAC)

Cumulative Tap Fees 1989-2004 (\$947,345 - 74,300)

873,045

Composite Amortization Rate (\$46,845/(967,232 less FD plant))

5.86%

Less: Amortized Tap Fees

(51,160)

Net Depreciation Expense (Note B)

(4,315)

Per Book Depreciation Expense

13,505

Depreciation and Amortization Expense Adjustment

(13,505)

Total Depreciation and Amortization Expense

0

FD = Fully Depreciated

CIAC = Contributions in Aid of Construction

N/A = Not enough detail provided by CUC for calculation. Data not needed for depreciation and amortization expense adjustment.

Note A = CUC has no detail for tap-on expenses between 1985 and 2001 of \$572,448; therefore, an equal amount of tap fee revenues collected in 1985-1988 of \$74,300 were fully depreciated.

Note B = Since the net depreciation expense is negative, ORS adjusted the book amount to reflect no depreciation expense.

CUC, Inc.
Computation of Income Taxes
For the Test Year Ended December 31, 2004

	<u>As Adjusted</u>	<u>After Proposed Increase</u>
Operating Revenues	\$ 564,460	\$ 878,525
Less: Operating Expenses	(678,117)	(681,690)
Less: Annualized Interest Expense	<u>(1,444)</u>	<u>(1,444)</u>
State Taxable Income	0	195,391
Less: State Income Taxes @ 5%	<u>0</u>	<u>(9,770)</u>
Federal Taxable Income	0	185,621
Federal Income Taxes:		
1st \$50,000 @ 15%	0	7,500
Next \$25,000 @ 25%	0	6,250
Next \$25,000 @ 34%	0	8,500
Remaining Balance @ 39%	0	33,392
Total Federal Income Taxes	<u>0</u>	<u>55,642</u>
Total State and Federal Income Taxes	0	65,412
Income Taxes Adjustment	<u><u>\$ 0</u></u>	<u><u>\$ 65,412</u></u>

CUC, Inc.
Computation of Customer Growth
For the Test Year Ended December 31, 2004

	<u>As Adjusted</u>	<u>After Proposed Increase</u>
Net Operating Income (Loss)	\$ (113,657)	\$ 131,423
Growth Factor	<u>0.016129</u>	<u>0.016129</u>
Customer Growth Adjustment	<u>\$ 0</u>	<u>\$ 2,120</u>

*** Number of Customers:**

Beginning	1037
Ending	1071
Average	1054

Formula:

$$\frac{\text{Ending-Average}}{\text{Average}} = \frac{17}{1054} = \underline{\underline{0.016129}}$$

*** Note:**

The number of customers was provided by Water/Wastewater Program Manager, Willie Morgan. The total number of customers was calculated by adding Sewer, HWater, Water and Water & Sewer amounts from Exhibit WJM-3.

CUC, Inc.
Income Statement
For the Test Year Ended December 31, 2004

Revenues

Water	\$ 180,048
Sewer	147,565
Irrigation	191,762
Water Tap Fees	23,450
Sewer Tap Fees	15,925
Availability Fees - Water	23,484
Availability Fees - Sewer	20,784
EPA Charges	3,760
Late Charges	2,558
Billing Adjustments	(2,357)
Grinder Stations - Net	10,210
Miscellaneous	251
Interest Income	70
Total Revenues	\$ 617,510

Expenses

Salaries, Wages, Benefits	263,502
Purchased Water	114,435
Electric Power for Sewer	40,874
Tap-on Expenses - Water	4,790
Tap-on Expenses - Sewer	1,000
Repairs & Maintenance	104,142
Insurance	74,221
Taxes - Other Than Income	8,412
Office & Related Expenses	29,514
Depreciation	13,505
Interest	0
Miscellaneous	756
Rate Case	0
Income Taxes	0
Total Expenses	\$ 655,151

Net (Loss) Income	\$ (37,641)
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Operating Margin	-6.10%
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CUC, Inc.
Balance Sheet
For the Test Year Ended December 31, 2004

ASSETS

Current Assets

Cash in the bank	\$	26,313	
Customer Accounts Receivable		32,948	
Grinder Stations on Hand		<u>4,058</u>	\$ 63,319

Fixed Assets

Sewer Plant	\$	111,000	
Sewer Pump Stations		38,346	
Sewer Mains		82,209	
Water Mains		<u>49,043</u>	\$ 280,598
Less: Depreciation Reserve		<u>(276,376)</u>	4,222

Other Assets

Vehicles	\$	88,060	
Equipment		<u>60,062</u>	\$ 148,122
Less: Depreciation Reserve		<u>(108,625)</u>	39,497

Total Assets

\$ 107,038

LIABILITIES AND EQUITY

Current Liabilities

Accounts Payable - Trade	\$	21,845	
Accrued Wages & Withholdings		2,747	
Current Portion Long Term Debt		<u>9,167</u>	\$ 33,759
Notes Payable - Vehicles - Net			18,333

Shareholders Equity

Capital Stock	\$	25,500	
Contributed Capital - Water Taps		326,450	
Contributed Capital - Sewer Taps		196,200	
Retained Earnings		<u>(493,204)</u>	54,946

Total Liabilities and Equity

\$ 107,038